



Improvements!

City Departments Implementing Audit Recommendations

Report #5

OFFICE OF CITY AUDITOR -- CITY OF SEATTLE

August 11, 1998

This issue of Improvements! summarizes the implementation of a Seattle Center action plan developed as part of a 1995 audit report. Improvements! will be issued regularly on the status of audit recommendations for various functions. For more information regarding Improvements! or other activities of the City Auditor, please call Susan Cohen at (206) 233-1093 or David G. Jones at (206) 233-1095.

Seattle Center Improves Procedures Regarding Oversight of Tenant Contracts

RESULTS IN BRIEF

In the fall of 1995, we worked with Seattle Center to develop an Action Plan to improve oversight of tenant contracts. Seattle Center has implemented the Action Plan. It has:

- increased internal communication between the Contracts and Concessions Section and the Accounting Section;
- reviewed tenant records as necessary to verify revenues;
- taken action to monitor and improve management controls of tenants; and
- standardized its tenant contracts and resolved over and under payments by tenants.

METHODOLOGY

In response to our letter inquiring about the implementation of the Action Plan, Seattle Center provided written descriptions of the actions taken. We then (1) analyzed the responses to determine if they complied with the Action Plan items; (2) verified reported actions by reviewing applicable documentation and conducting on-site reviews of new procedures; and (3) determined if there were any other actions that needed to be taken in order to comply with the audit recommendations. Our procedures were in accordance with generally accepted government auditing standards.

PURPOSE

This follow-up **Improvements!** reviews the Action Plan developed as a result of the 1995 audit to assist management improve oversight of tenant contracts. The audit was performed at the request of Seattle Center as part of its continuing effort to improve operations. The Office of City Auditor performed an audit of rents paid by Center House tenants to Seattle Center and Seattle Center's oversight of the payments. During the audit, Seattle Center and the Office of City Auditor worked together to improve Seattle Center's management control systems to ensure that: (1) tenants were paying the appropriate rent; (2) tenants were accurately reporting revenues; and (3) tenants had appropriate management controls in place to ensure proper cash handling and reporting of revenues. We also reviewed tenant contracts to see how Seattle Center could improve them.

BACKGROUND

Seattle Center rents space in the Center House to retail and food vendors. Rent is calculated at roughly 10% of sales revenues. The rents consist of two components: 1) a flat rate that tenants must pay regardless of sales, and 2) a rate based on a percentage of sales above a base annual amount. In 1994, 36 vendors generated approximately \$6 million in sales and Seattle Center received \$588,200 in rental income.

RESULTS OF OUR WORK

Report: Seattle Center Improving Procedures to Ensure Tenants are Reporting All Revenues and to Ensure Consistency of Contracts, October 5, 1995.

As part of the audit, Seattle Center and the Office of City Auditor developed the following steps to improve Seattle Center's process for managing and monitoring Center House tenant contracts. Seattle Center has implemented these as noted.

Action Items

1. Seattle Center's Accounting Section and its Contracts and Concessions Section will work together to ensure that tenant rents accurately reflect contract terms. They will develop a system that will allow Contracts and Concessions to immediately share contract changes with Accounting so that Accounting can accurately calculate the rent due.

Resolution of Recommendation: The Contracts and Concessions Section communicates contract changes for prorated rent and special assessments to the Accounting Section. The two sections share access to a billing information database to facilitate communication and review of activities. New contracts and contract amendments are sent to the Accounting Section as soon as they are executed.

2. Seattle Center's Accounting Section will periodically reconcile tenant revenue reports to corresponding cash register tapes. For tenants who show a pattern of errors, Seattle Center will reconcile revenues more frequently. Seattle Center will also require tenants to submit adding machine tapes showing the addition of their sales and the calculation of sales tax and rent. Seattle Center will also credit or bill tenant rental accounts for the under and over payments identifies.

Implementation of Action Item: Adding machine tapes are submitted by vendors as required. The Accounting Section reconciles manually prepared bills to cash register tapes. When errors are detected, a more thorough investigation is performed.











3. Seattle Center also plans to periodically review tenants' management controls over cash receipting, recording, reporting, and accounting and to recommend improvements as necessary.

Implementation of Action Item: Seattle Center uses information obtained from the citizens, City employees, business owners, and a "secret shopper" report prepared by a consultant to discuss and review management controls with the tenants. Tenants are required to sign an action plan to address management control weaknesses identified. Seattle Center is planning to increase the frequency of management control reviews for which no concerns are received. In addition, Seattle Center sponsors monthly presentations by experts to help improve tenants business processes, including management, marketing, and product presentation.

4. Seattle Center will continue its effort to standardize tenant contracts and to apply consistent rates to all tenants. In addition, Seattle Center will credit tenants who overpaid rent, and bill those who underpaid.

Implementation of Action Item: Seattle Center has a standard lease that is used for Center House food and retail merchants and is the basis for all other contract negotiations. Overpayments were credited and underpayments charged to the tenant accounts as necessary, shortly after the audit report was provided to the Center.

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